# Connection

Pax World Investments | For Tomorrow®

Summer 2017 | A Newsletter for Sustainable Investors

## INSIDE



# Advancing Gender Equality by Closing the Pay Gap

By Heather Smith, Lead Sustainability Research Analyst, Pax World

Many investors have long recognized the benefits associated with gender diversity—including superior financial performance and improved decision-making and oversight—and have engaged in a variety of initiatives aimed at increasing the representation of women across all professional levels, from entry level positions to the C-suite and boardroom.

We've seen some progress: Following a series of board diversity campaigns coordinated by the Thirty Percent Coalition since 2012, over 100 companies have added women to their boards. That said, progress remains painfully slow. Recent research from Mercer indicates that current female hiring, promotion and retention rates are inadequate to create gender equality over the next decade.[1] In addition, a stubborn gender pay gap persists.

While shareholder engagement efforts have traditionally focused on increasing women on boards and in management, measuring and publicly reporting on pay equity has emerged as another tool in advancing gender diversity. Pay equity is a crucial part of a successful diversity strategy, helping companies to attract and retain talented and motivated employees—yet only 35% of organizations have a pay equity analysis built on a robust statistical approach.[2]

Investors recognize that transparency can help eliminate gender pay gaps and that pay discrimination presents litigation, regulatory and reputational risk. That's why they are urging companies to disclose policies around pay equity, the results of their pay analyses and strategies to close any identified pay gaps.

Prior to 2016, very few publicly traded U.S. companies, namely The Gap, Inc., Salesforce and GoDaddy Inc., provided any disclosure around pay equity. But, with the topic dominating headlines in 2016, meaningful strides were made. A series of successful shareholder resolutions were directed at some of the largest technology companies, including Apple, which disclosed the results of its pay assessment and closed the pay gaps it identified. Over 100 companies endorsed the Obama Administration's White House Equal Pay Pledge and committed to conducting an annual gender pay analysis. In addition, California, Massachusetts, New York and Maryland enacted significant changes to their state-level equal pay laws. In the spring of 2016, a group of nearly 40 investors wrote to S&P 100 companies asking them to commit to collecting, calculating and publicly disclosing pay data by gender, race and ethnicity. Finally, Pax Ellevate Management petitioned the SEC, urging the agency to require public companies to disclose gender pay ratios on an annual basis.

*"Investors recognize that transparency can help eliminate gender pay gaps and that pay discrimination presents litigation, regulatory and reputational risk."*

In 2017, investors are planning several engagements and shareholder resolutions to build on this momentum. Targets include companies in financial services, an industry that has among the highest gender pay gap and where women are more likely to leave at midcareer, in addition to technology and retail companies.[3] At Pax World, we've filed or co-

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# Where are Climate Risks and Opportunities? Everywhere.

By Julie Gorte, Ph.D., Senior Vice President for Sustainable Investing, Pax World

The earth's climate is becoming warmer because of things we (humans) have done. Since the climate, along with the atmosphere and water, forms the infrastructure of our lives, climate change will affect us pervasively. As long-term investors, we also recognize that it will affect investment markets pervasively—in some ways that are obvious, some not so much.

Let's start with the obvious. Regulation designed to reduce mankind's greenhouse gas (GHG) emissions will create increasing risks in sectors tied to the burning of fossil fuels: utilities, materials, energy and industrials. Conversely, energy production that doesn't involve fossil fuel combustion—solar, wind, geothermal—will create opportunities. This includes companies that produce wind turbines and solar panels and other equipment needed to make cleaner energy.

What is not as obvious is that there is a world full of risks and opportunities for investors beyond the energy sector. Two ideas shape our thinking about that world:

1. Not all the risks fall on emitters, and not all the opportunities are in reducing GHG emissions.
2. There are also risks and opportunities in adaptation to climate change.

## It's Not All About the Emitters

At first glance, climate change seems inconsequential. What difference does it make if the globe warms by a small handful of degrees? While we may not notice a 2°C rise in the temperature outside on any given day, a 2°C increase in the global average temperature is far more impactful. It will bring greater frequency of severe weather like heat waves, droughts, floods, and storms. It will raise sea levels. It will expand the range of diseases and pests formerly confined to the tropics.

So, what are the investment considerations outside of the energy sector?

For real estate companies with properties in vulnerable locations, like low-lying coastal regions, sea-level rise will result in increasing risk—and flood insurance will cost more, if it is available at all. For companies with real estate assets in forested regions that are expected to be drier, like parts of the Sierra Nevada and intermountain regions of the U.S., fire insurance is likely to be increasingly costly.

Health care companies need to prepare for expanding incidence of diseases like malaria, dengue fever and West Nile virus, which are carried by mosquitoes whose ranges expand more into temperate regions as the climate warms.

On the opportunity side, a warming climate will open new shipping routes in areas formerly clogged with ice, and it may expand the growing range of some crops. This may create opportunities for maritime shipping companies and those in agriculture and food production.

As society continually seeks to mitigate climate change further, there are opportunities for businesses that produce low-carbon options to replace more carbon-intensive ones (like electric cars), or provide substitute services that involve fewer emissions (like teleconferencing facilities to reduce the need for physical travel).

One of the often-overlooked opportunities is for companies that produce systems and equipment to use water more efficiently, and purify it on site, reducing the need for expensive and energy-intensive pipelines to replenish freshwater. A gallon of water weighs 9 pounds, and it takes a lot of energy to move it around. Reducing the need to move wastewater long distances for treatment, and freshwater for consumption, will reduce the energy-intensity of the water enterprise.

## Adapting to Climate Change

Adaptation to— as opposed to mitigating— climate change creates a different set of risks and opportunities. Greenhouse gases stay in the atmosphere for years—many for decades, a few for centuries, and some even for millennia. There is one degree of additional warming that is locked in as a result of past emissions, and it will take a great deal of effort and investment to limit additional warming to 2°C. So we will have to adapt.

What does adaptation risk look like? For an electric utility with power plants on or near low-lying coastal areas, increasing risks from more severe storms and storm surges, as well as sea-level rise, means that investment may be needed to prevent the power system from being knocked out and severely damaged by storms.

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# Pax World News

## Pax World Persuades Companies to Advance Pay Equity

In March, Pax World announced the successful withdrawal of pay equity shareholder resolutions at five companies in the financial services, technology and telecommunications sectors following their commitments to take proactive steps toward enhancing pay equity disclosure.

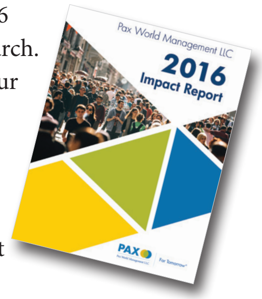
We filed shareholder proposals at Goldman Sachs, BNY Mellon, Verizon, AT&T and Qualcomm, requesting that the companies disclose the percentage pay gap between male and female employees and take steps to address it. At the time of the filings, none of the companies had any public disclosure related to pay equity. We withdrew our proposals when the companies agreed to take steps to enhance pay equity disclosure.

To read the press release visit paxworld.com/news/pax-world-news.

## Fund Name Change

On May 1, 2017, the Pax MSCI International ESG Index Fund was renamed the Pax MSCI EAFE ESG Leaders Index Fund to correspond with a name change in the Fund's underlying index. MSCI changed the name of their index to the MSCI EAFE ESG Leaders Index.

## Pax World 2016 Impact Report




Pax released our 2016 Impact Report in March. The report reviews our progress as an asset manager committed to sustainable investing principles and as a business that seeks to operate in a manner consistent with the ESG standards we integrate into our portfolios. To read the Impact Report, visit paxworld.com.

## Congrats Chris Rooney

Congrats to Chris Rooney, Pax World Vice President, Business Development, on his appointment to the board of directors of New Hampshire Businesses for Social Responsibility (NHBSR). NHBSR is a not-for-profit membership organization that fosters socially and environmentally responsible businesses in New Hampshire.

# What's new on paxworld.com

### Invest Like a Feminist Video

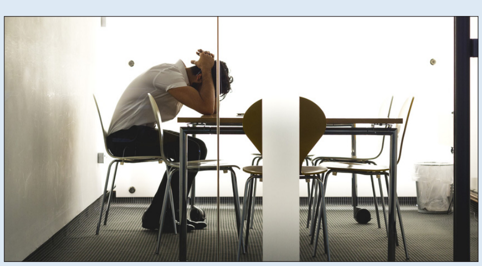

Learn how you can advance gender equality using the power of your money. Watch at paxworld.com/pevideo.

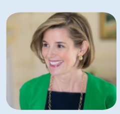
### Gender Lens Investing Brochure


Learn how Pax is a pioneer in Gender Lens Investing. Download the brochure at paxworld.com/gender.

# What's Trending Now

**Pax World @PaxWorld**
@jgorte gives you 5 reasons not to panic about #climatechange in her latest @LinkedIn article: "Don't Panic, Seriously: Climate Change, Policy, and Reality"





**Sallie Krawcheck @SallieKrawcheck**
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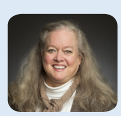

**Julie Gorte @jgorte**
"Sustainability is good for investors, the planet, and simply for people." @MindyLubber #CERES17

**Pax Ellevate @PaxEllevate**
#Genderequality isn't an impossible dream. Learn how to promote women's #leadership at your company: t.co/W5Stlv2Egn

**Pax World @PaxWorld**
5 investment trends behind growth in sustainable and impact investing bit.ly/2mlUjx3 #ESG #impinv

WHERE ARE CLIMATE RISKS AND OPPORTUNITIES? EVERYWHERE from PAGE 2

Consolidated Edison recently spent around $1 billion to adapt New York City's electric generating system to future Hurricane Sandy events. Anyone with a nuclear power plant near sea level should understand what happened to Fukushima Daiichi and its owner, Tepco. While that disaster resulted from a tsunami, it illustrates the vulnerability of coastal nuclear capacity to rising seas and storm surges.

On the opportunity side of the equation, pharmaceutical companies are expected to develop new therapies for diseases that are expanding into the temperate regions, where many of the richer nations spend considerably more on healthcare than in the tropics.

### It's About the Big Picture

A decade ago, many in the mainstream investment world talked as though "climate risk" primarily meant mostly regulatory risks for big emitters. Nowadays, more investors are aware that climate will bring both investment risks and opportunities, and in nearly every industry and sector. Where should one look for climate's investment consequences? Everywhere.

## The Benefits of an Automatic Investment Plan

**Keep your savings on track year round with an Automatic Investment Plan (AIP)**

With a Pax World AIP—available for all Pax World Funds—you can invest a designated dollar amount at regular intervals. This helps you to pay yourself first, a simple and effective way to save. Also, when you invest automatically on a regular schedule, you'll spend less time analyzing and worrying about the right time to invest.

To start an AIP, download and complete the Shareholder Services form at **paxworld.com**. If you have a bank account attached to your Pax World account already, you can also establish an AIP online.

ADVANCING GENDER EQUALITY BY CLOSING THE PAY GAP CONTINUED from FRONT PAGE

filed six shareholder resolutions on pay equity, requesting the disclosure of the results of pay equity assessments.

The role of business has never been more critical in advancing gender equality, and all companies would be well served by proactively analyzing their pay structures by gender, race and ethnicity. Pay parity represents one step towards closing the overall gender gap in the workforce and helps position companies to take advantage of the *entire* workforce. It will require the combined efforts of many to disrupt the business as usual scenario of waiting another 170 years to achieve gender equality.[4]

[1]Mercer, "Turning Disruption into Opportunity for Women and Business," 2017.

[2]Stefan Gaertner, Gail Greenfield, Brian Levine, "Pay Equity: New Pressures, new strategies," Mercer.

[3]Dr. Andrew Chamberlain, "Demystifying the Gender Pay Gap," Glassdoor, 2016.

[4]World Economic Forum, "The Global Gender Gap Report 2016," 2016.

As of 3/31/17, The Gap, Inc. was 0.4% of the Pax ESG Beta Quality Fund, 0.7% of the Pax ESG Beta Dividend Fund, 0.1% of the Pax Balanced Fund and 0.0% of the Pax Ellevate Global Women's Index Fund. Apple, Inc. was 3.4% of the Pax ESG Beta Quality Fund, 2.0% of the Pax ESG Beta Dividend Fund, 5.4% of the Pax Large Cap Fund, 2.5% of the Pax Balanced Fund and 0.4% of the Pax Core Bond Fund. Salesforce was 0.3% of the Pax ESG Beta Dividend Fund, 0.0% of the Pax Balanced Fund and 1.9% of the Pax Ellevate Global Women's Index Fund. GoDaddy Inc. was not held by any Pax World Fund. Holdings subject to change.

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**An investment in the Pax World Funds involves risk, including loss of principal. Past performance does not guarantee future results.**

RISKS: Equity investments are subject to market fluctuations, a fund's share price can fall because of weakness in the broad market, a particular industry, or specific holdings. Emerging market and international investments involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, economic or political instability in other nations or increased volatility and lower trading volume. Investments in high yield bonds generally are subjected to greater price volatility based on fluctuations in issuer and credit quality. When investing in bonds, you are subject, but not limited to, the same interest rate, inflation and credit risks associated with the underlying bonds owned by the Fund. Mortgage related securities tend to become more sensitive to interest rate changes as interest rates rise, increasing their volatility. Funds that emphasize investments in mid-size and smaller companies generally will experience greater price volatility. Investing in non-diversified funds generally will be more volatile and loss of principal could be greater than investing in more diversified funds. The Pax Mid Cap Fund, Large Cap Fund, Core Bond Fund and the ESG Beta® Dividend Fund are new and have a limited operating history.

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